DEPARTMENT OF FINANCE
Shaw Building, Rochford Street
P.O. Box 2000, Charlottetown
Prince Edward Island
C1A 7N8

ECONOMICS, STATISTICS AND FISCAL ANALYSIS DIVISION

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ECONOMIC TRENDS

PRINCE EDWARD ISLAND

PERSONAL INCOME TAX PROFILE

1. Introduction

The Personal Income Tax is one of the Province's more important revenue sources. It is collected by the federal Department of Revenue, along with the federal income tax, and remitted to the Province by the federal Department of Finance under a Federal-Provincial Tax Collection Agreement.

The income tax provides a major source of data on incomes being received by residents of the province. This issue of Economic Trends looks at 1985 personal income tax statistics for residents of Prince Edward Island. Current interest in income tax data has been heightened by the fact that we are presently in the midst of major federal tax reform in Canada.

Several dimensions of Prince Edward Island tax filers are profiled in this paper: number of tax returns, income, income sources, income classes, tax exemptions and deductions, tax payable, tax credits, geography, occupation, farming and fishing income. Data is derived primarily from Revenue Canada's Taxation Statistics, which is compiled from a sample of returns. The sampling technique allows Revenue Canada to provide taxation information quickly, and has been found to be accurate in overall results. However, it should be noted that for some individual items the degree of accuracy may not be as great.

2. Major Summary Statistics

Table 1

Population and 1985 Income Tax Return Numbers

	P.E.I.	% of Canada
Population (1)	126,646	0.50
Population Age 15+ (1)	97,271	0.49
Number of Returns	70,788	0.45
Number of Taxable Returns	52,698	0.47

(1) 1986 Census of Population

For 1985, there were 70,788 tax returns filed by residents of Prince Edward Island. This was 0.45 percent of the total returns in Canada, which is less than the province's population share (0.50 per cent), and less than the province's population share for persons aged 15 years and over (0.49 per cent), according to the 1986 Census. This implies that in Prince Edward Island a smaller proportion of the adult population had income to report for tax purposes as compared to the rest of Canada.

The number of taxable returns for 1985 was 52,698. A return is considered "taxable" when there is tax payable of one dollar or more. Some of the non-taxable returns are by individuals with little or no income who file a tax return only to claim the child tax credit.

Table 2

Major 1985 Personal Income Tax Items

	P.E.I. ($ million)	% OF CANADA
Total Income	1,041.7	0.34
Personal Exemptions	374.2	0.45
Deductions	148.3	0.34
Taxable Income	567.0	0.30
Net Federal Tax Payable	90.2	0.26
Net Provincial Tax Payable	51.8	0.38
Child Tax Credit	11.0	0.74

Total reported income for Prince Edward Island in 1985 was slightly over $1 billion. This was only 68 per cent of the Canadian average, on a per capita basis, which is indicative of the lower average incomes in Prince Edward Island.

Taxable income, which is total income less all tax deductions and personal exemptions, was $567 million. The taxable income of $567 million resulted in net federal tax payable of $90 million (average tax rate of 15.9 per cent), and net provincial tax payable of $52 million (average tax rate of 9.1 per cent).

3. Sources of Income

Table 3

1985 Sources of Income

INCOME SOURCE	TOTAL VALUE $ million	NO. OF RETURNS REPORTING
Wages & Salaries	668.4	52,780
U.I. Benefits	102.8	25,499
Bank Interest	41.5	21,133
Other Pensions	26.1	4,285
Net Fishing Income	22.8	3,294
Net Professional Income	22.3	871
Net Business Income	19.7	4,051
OAS Pension	18.4	5,761
CPP Benefits	17.7	6,397
Bond Interest	15.2	9,252
Taxable Dividends	14.7	3,503
Family Allowance	14.1	19,654
Net Farming Income	12.0	3,287
Other	46.0	n/a
TOTAL	1,041.7	

Wages and salaries contributed to 64 per cent of total income in 1985. Unemployment insurance benefits contributed 10 per cent. Also, Prince Edward Island tax filers reported total capital gains of $15.3 million, of which only one-half is taxable income.

Table 4

1985 Income Sources, PEI % of Canada

INCOME SOURCE	P.E.I as a % of CANADA
Net Fishing Income	5.72
UI Benefits	1.08
Net Farming Income	0.68
Family Allowance	0.58
Net Business Income	0.43
OAS Pension	0.38
CPP Benefits	0.34
Other Pensions	0.34
Bank Interest	0.32
Net Commission Income	0.32
Net Rental Income	0.32
Wages & Salaries	0.31
Net Professional Income	0.29
Bond Interest	0.29
Net Taxable Capital Gains	0.28
Foreign Investment Income	0.27
Commissions from Employment	0.25
Miscellaneous Income	0.25
Annuity Income	0.23
Taxable Dividends	0.18
Income from Trusts	0.18
Other Employment Earnings	0.17
Other Canadian Investment Income	0.13
Mortgage Interest	0.13
TOTAL INCOME	0.34

There were only four sources of income for which Prince Edward Island's percentage of Canada exceeded its population share: net fishing income, U.I. benefits, net farming income, and family allowance. The income source of any significance for which Prince Edward Island had the lowest share of the Canadian total in 1985, is the taxable amount of dividends. Prince Edward Island had taxable dividends of $14.7 million, which was only 0.18 per cent of the Canadian total of $8.3 billion.

4. Income Classes

Table 5

1985 Income Classes

TOTAL INCOME ($)	NO. OF RETURNS	% OF CANADA
below 25,000	59,438	0.52
25,000 - 50,000	10,084	0.27
50,000 - 100,000	1,095	0.19
100,000 - 150,000	97	0.16
150,000+	74	0.18
	70,788	0.45

Almost 84 per cent of the 1985 Prince Edward Island tax returns reported total income of less than $25,000. The figures for Prince Edward Island tax filers as a percentage of total Canadian returns in the various income classes clearly show that Prince Edward Island has relatively more lower income residents. The province had significantly less than its share of the total Canadian population in all income classes over $25,000.

5. Exemptions and Deductions

Table 6

1985 Personal Exemptions

EXEMPTION	TOTAL VALUE ($ million)	NO. OF CLAIMS	% OF CANADA (VALUE)
Basic	292.9	70,788	0.45
Married or Equivalent	36.9	12,274	0.42
Wholly Dependant Children	29.1	18,827	0.59
Age	15.1	5,848	0.37
Other Dependants	0.1	28	0.09
TOTAL	374.2	70,788	0.45

Compared to all of Canada, it is the exemption for wholly dependent children where Prince Edward Island most exceeds the Canadian average. Although Prince Edward Island accounted for only 0.45 per cent of all 1985 tax returns in Canada, the total value of their exemption for wholly dependent children was 0.59 per cent of the Canadian total.

Table 7

1985 Deductions

DEDUCTION	TOTAL VALUE ($ million)	NO. OF CLAIMS	VALUE PER CLAIM ($)
General Employment Expense	24.7	52,841	468
RPP Contributions	18.6	14,517	1,278
RRSP Contributions	16.6	8,711	1,904
Interest & Dividends	15.3	24,575	622
UI Premiums	12.9	51,236	252
Other Deductions	10.3	3,624	2,831
CPP Contributions	10.1	50,392	200
Charitable Donations	8.8	22,259	394
Capital Gains Exemption	5.3	1,632	3,219
Pension Income	4.0	4,270	948
Elig. Deds. Trans. from Spouse	3.3	2,268	1,470
Child Care Expenses	3.3	2,673	1,239
Union & Professional Dues	3.2	16,991	189
Other	11.9	n/a	n/a
TOTAL	148.3		

The total value of deductions by Island taxfilers was $148.3 million in 1985, which is an average of $2,095 per return. In total, it was the employment expense deduction (20 per cent of employment income up to a limit of $500) which formed the largest deduction for Prince Edward Island returns. This differed from the average for Canada where registered retirement savings plan (RRSP) contributions were the largest deduction.

In 1985 the exemption for lifetime capital gains came into effect. There were 1,632 Prince Edward Island tax filers who claimed capital gains exemptions in 1985 for a total value of $5.3 million. This was the most valuable deduction, on average, for those making the claim, at $3,219 per claim.

Table 8

1985 Deductions, PEI % of Canada

DEDUCTION	PEI as a % of CANADA
Medical Claims	0.50
Disability Deduction	0.49
Elig. Deds. Trans. from Spouse	0.45
General Employment Expense	0.44
Charitable Donations	0.44
RPP Contributions	0.42
RHOSP	0.42
Child Care Expenses	0.39
Tuition Fees	0.38
Education Deduction	0.36
Pension Income	0.36
CPP Contributions	0.36
UI Premiums	0.35
Capital Gains Exemption	0.33
Interest and Dividend Income	0.32
Union and Professional Dues	0.28
RRSP	0.25
Other Deductions	0.22
Other Employment Expenses	0.17
Carrying Charges	0.16
TOTAL DEDUCTIONS	0.34

The value of all deductions claimed by Prince Edward Island taxfilers was only 0.34 per cent of the Canadian total, which is equal to the province's share of total income.

There was only one deduction for which Prince Edward Island, as a percentage of Canada, exceeded its share of population, and that was for "medical expenses". The deduction of any significance for which Prince Edward Island had the lowest share of the Canadian total is "other deductions", which includes allowable capital losses, moving expenses, alimony payments, petroleum exploration ventures, capital cost allowance for Canadian films, gifts to Canada, and an employee stock option deduction. Prince Edward Island had "other deductions" of $10.3 million in 1985, which is only 0.22 percent of the Canadian total of $4.6 billion.

Table 9

Top 1985 Deduction, by Income Class

TOTAL INCOME $	NO. OF RETURNS	TOP DEDUCTION Name	# Claims	Aver. Value Per Claim $
below 25,000	59,438	Gen. Employ Expense	43,248	462
25,000 - 50,000	10,084	RPP Contributions	6,530	1,720
50,000 - 100,000	1,095	RRSP Contributions	585	3,978
100,000+	171	Other Deductions	92	44,674

Table 9 lists the top deductions for Prince Edward Island, in terms of total value, by income class. "Other deductions" was used heavily by a small number of tax filers in the high income groups. For the 171 filers reporting total income of $100,000 and over in 1985, there were 92 claims for "other deductions" totalling $4.1 million, which is an average of $44,674 per claim!

6. Tax Credits

Table 10

Selected 1985 Tax Credits

TAX CREDIT	TOTAL VALUE ($ million)	NO. OF CLAIMS	% OF CANADA (VALUE)
Child Tax Credit	11.0	15,834	0.74
Dividend Tax Credit	3.2	3,112	0.18

Two of the more important tax credits are the Child Tax Credit and the Dividend Tax Credit. The taxation data show that there were 15,834 Prince Edward Island tax filers claiming the child tax credit in 1985 for a total value of $11.0 million. That translates into an average value of $693 per claim.

The total value figure for the child tax credit as a percentage of the Canadian total far exceeds the province's share of population. However, it appears that residents of Prince Edward Island do not take nearly as much advantage of the dividend tax credit as other Canadians. In 1985, the total value of the dividend tax credit claimed on Prince Edward Island tax returns was only $3.2 million, or 0.18 per cent of the Canadian total of $1.8 billion.

7. Geographical Profile

Table 11

1985 Personal Income Tax Statistics, by County

COUNTY	% of POPULATION	% OF PEI RETURNS	% OF TOTAL TAX
Queen's	50.1	50.4	59.1
Prince	34.5	35.1	30.0
King's	15.4	14.5	10.9
Total	100.0	100.0	100.0

Queen's County accounts for 50.1 per cent of the provincial population, according to the 1986 Census, but it accounted for 50.4 per cent of all tax returns in 1985, and 59.1 per cent of the personal income tax. This reflects the higher average incomes of Queen's County.

8. Occupation Profile

Table 12

1985 Personal Income Tax Statistics, By Occupation

OCCUPATION	NO. OF RETURNS	AVERAGES		
		TOTAL INCOME PER RETURN ($)	TAXABLE INCOME PER RETURN ($)	NET TAX PAYABLE PER RETURN ($)
Employees	41,651	17,120	9,794	2,005
Farmers	2,193	12,515	6,339	1,009
Fishermen	2,227	15,971	9,432	1,833
Self-employed				
Accountants	34	60,735	42,500	15,529
Doctors	132	96,765	61,705	24,917
Dentists	25	70,920	41,400	16,640
Lawyers	56	59,429	39,964	14,000
Other Prof.	258	17,539	9,190	2,333
Salesmen	128	14,000	7,898	2,094
Business				
Proprietors	2,566	12,638	6,510	1,590
Investors	2,966	19,431	11,131	2,355
Property				
Owners	323	17,659	9,263	2,650
Pensioners	4,688	12,004	4,053	918
Unclassified	13,541	6,450	2,673	525
TOTAL	70,788	14,716	8,010	2,005

Average income per tax return for Prince Edward Island was $14,716 in 1985, with an average net tax payable of $2,005. "Doctors" were the occupational group with the highest average income ($96,765) and the highest average net tax payable ($24,917). This works out to an average tax rate on total income of 25.8 per cent, which is also the highest among occupational groups. The lowest average tax rate belonged to "pensioners", who had average total income of $12,004, with net tax payable of $918 per return.

Table 13

1985 Deduction Statistics, By Occupation

OCCUPATION	TOTAL DEDUCTIONS PER RETURN ($)	TOP DEDUCTION NAME	TOP DEDUCTION VALUE PER RETURN ($)
Employees	2,442	General Employment Expense	481
Farmers	1,950	Interest & Dividends	423
Fishermen	1,316	R.R.S.P. Contributions	385
Self-employed			
Accountants	10,941	R.R.S.P. Contributions	3,765
Doctors	27,568	Other Deductions	16,826
Dentists	20,760	R.R.S.P. Contributions	4,000
Lawyers	12,768	Other Deductions	4,696
Other Prof.	3,163	Other Deductions	n/a
Salesmen	1,383	R.R.S.P. Contributions	602
Business			
Proprietors	1,565	R.R.S.P. Contributions	369
Investors	3,589	Interest & Dividends	881
Property			
Owners	3,390	Capital Gains Exemption	907
Pensioners	2,166	Interest & Dividends	563
Unclassified	536	General Employment Expense	254
TOTAL	2,095		

Doctors, who were the highest income group in 1985, also had the highest amount of deductions per return ($27,568). Their largest individual deduction, in terms of total value for the group, was "other deductions"

Table 14

Selected Statistics for 1985 Returns With Total Income Over $50,000, By Occupation

	TOTAL INCOME $50,000 AND OVER		
	No. of Returns	Income Per Return ($)	No. of Returns Paying no Tax
Employees			
Businesses	290	84,941	0
Fed. Gov.	151	63,225	0
Prov. Gov.	143	56,287	0
Institutions	32	73,344	1
Other	57	62,439	0
Farmers	53	72,981	1
Fishermen	27	58,889	0
Self-employed			
Accountants	15	92,467	0
Doctors	115	106,835	0
Dentists	9	100,222	0
Lawyers	35	74,029	0
Other Professions	25	81,440	0
Business Proprietors	42	68,679	0
Investors	218	90,183	11
Property Owners	15	86,200	0
Pensioners	27	62,537	0
Salesmen/Unclassified	12	80,747	0
TOTAL	1,266	78,428	13

There were 1,266 Prince Edward Island tax returns in 1985 reporting total income of $50,000 and over. In this group were 290 employees of businesses, 218 investors, 151 federal government employees, 143 provincial government employees, and 115 doctors.

There were also, within this group, 171 returns with a total income of $100,000 and over (not shown in Table 11). In this group were 54 doctors, 43 investors, and 41 employees of businesses.

9. Farming Income Profile

Table 15

Selected Statistics for 1985 Returns Claiming a Positive or Negative Net Farming Income

	RETURNS CLAIMING NET FARMING INCOME	
	Less than $0	Greater than $0
# of taxfilers	1,410	2,020
average net farming income	-4,736	9,057
average total income	14,486	16,640
wages & salaries % of total income	69.8	18.2
distribution of taxfilers by total income:		
below 9,999	662	796
10,000 - 19,999	400	703
20,000 - 29,999	158	263
30,000 - 39,999	88	119
40,000 - 49,999	39	60
50,000 +	63	79
	1,410	2,020

The data in Table 15 are for all tax filers claiming any positive or negative net farming income whether or not they were primarily farmers.

For 1985, there were 1,410 tax filers claiming negative net farming income. These returns also had income from other sources of $19,222 per return, on average.

There were 2,020 returns claiming a positive net farming income. These had other income of $7,583, on average, and average net farming income of $9,057. Three-quarters of these returns reported total income of less than $20,000.

10. Fishing Income Profile

Table 16

Distribution of 1985 Returns Claiming a Positive or Negative Net Fishing Income, By Total Income

TOTAL INCOME($)	NUMBER OF RETURNS WITH NET FISHING INCOME	
	Less than $0	Greater than $0
below 9,999	94	1,042
10,000 - 19,999	44	1,267
20,000 - 29,999	8	420
30,000 - 39,999	7	149
40,000 - 49,999	1	59
50,000+	0	31
	154	2,968

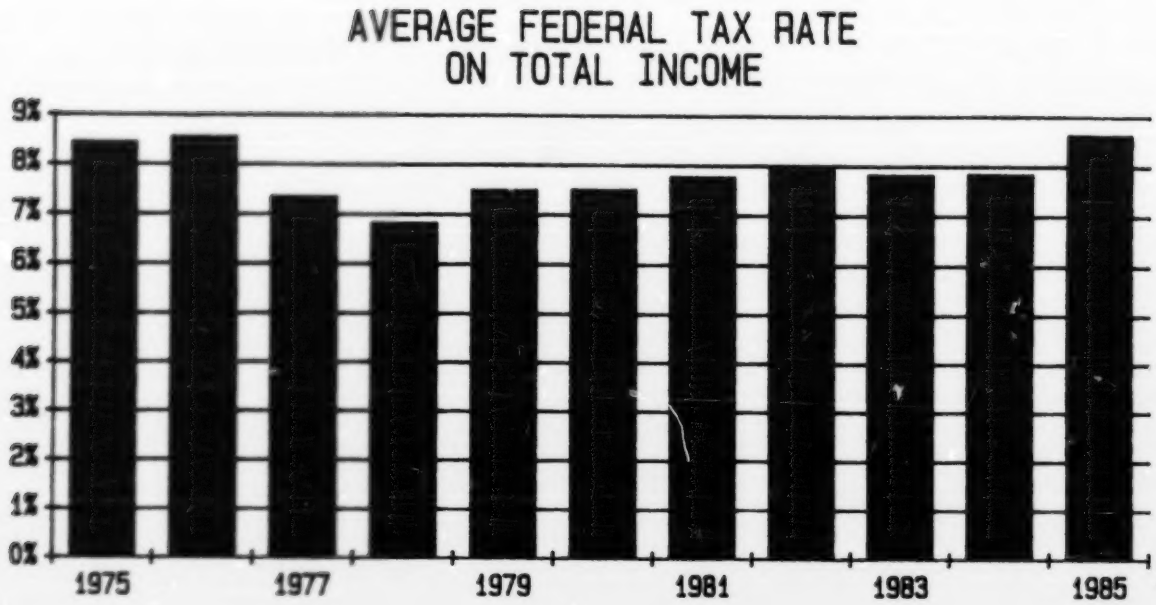
About 78 per cent of the 3,122 returns reporting any positive or negative net fishing income had total income of less than $20,000.

11. Historical Trends

Personal income tax data has been provided for many years by Revenue Canada, making possible an analysis of individual income tax items over time. A few trends since 1975 are highlighted in this section of the paper.

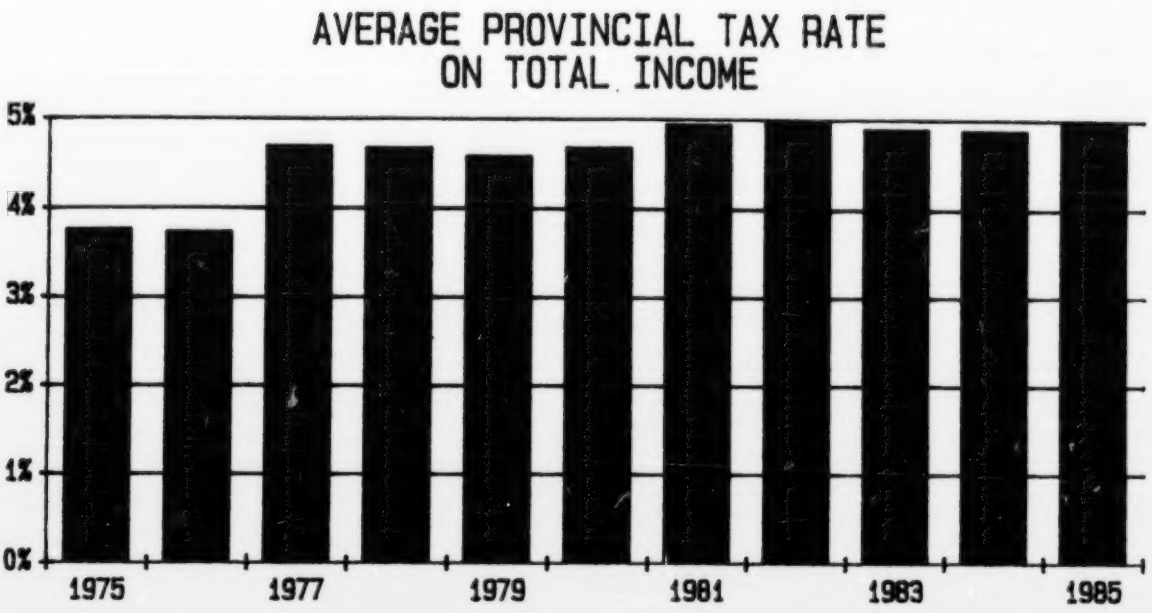
An important trend is depicted in Graph 1, which shows the average rate of federal tax on total income for Prince Edward Island for the years 1975 to 1985. In 1975 and 1976, federal tax

Graph 1



payable as a percentage of total income was around 8.5 per cent. In 1977, the federal government transferred some of its income tax to the provinces as part of the Established Programs Financing arrangements. This was done by reducing the federal income tax rate by 9.143 percentage points, allowing provinces to raise their rates by an equivalent amount. This transfer largely explains the significant drop in the average federal tax rate in 1977 and 1978. Net federal tax payable as a percentage of total income decreased to 6.8 per cent by 1978. This percentage recovered somewhat in 1979 to 7.5 per cent, but it has taken until 1985 for the rate to finally exceed the pre-1977 rates. In 1985, the rate was 8.7 per cent.

Graph 2

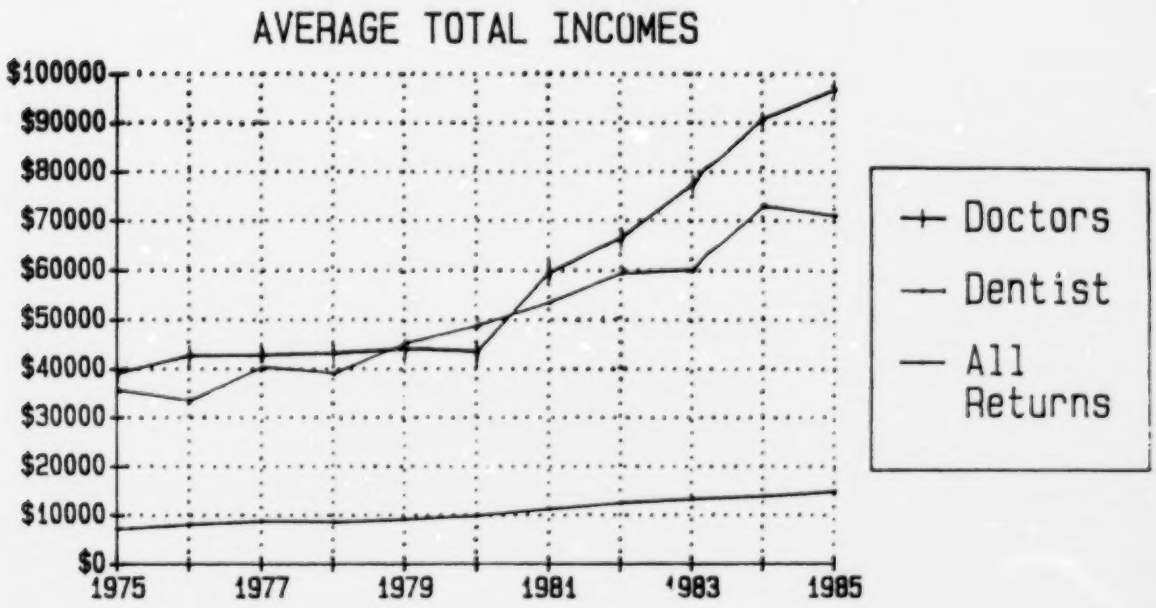


Graph 2 shows the average provincial rate of tax on Prince Edward Island total income. Three periods can be seen. In 1975 and 1976, provincial tax payable as a percentage of total income was about 3.75 per cent. After the significant increase in provincial income tax rates in 1977 noted above, the percentage of total income going to provincial income tax reached a new level of around 4.7 per cent. This level was maintained for four years until 1981, the first full year of an increase in the provincial tax rate effective July 1, 1980. In 1981 the tax rate rose to 4.95 per cent. It has hovered about that mark since.

The trend in average incomes since 1975 is also interesting. The historical data show that total income per Prince Edward Island tax return increased from $7,015 in 1975 (76.1 per cent of Canada) to $14,716 in 1985 (75.9 per cent of Canada). Graph 3 shows the average incomes for Prince Edward Island returns over this period, relative to the growth of average incomes for doctors and dentists who led all occupations in terms of highest average incomes.

In 1980, the average income of doctors was $43,345, which was second to the average income of dentists among the various occupations. By 1985, the average total income for doctors had grown to $96,765. Even after discounting for inflation, this represents an average growth rate of 9.3 per cent per year.

Graph 3



12. Summary and Conclusions

Personal income tax data compiled by Revenue Canada for the provinces provide a large body of data for economic analysis. The data for 1985 show total income, as defined in the tax return, of slightly over $1 billion for residents of Prince Edward Island. This is an average of $14,716 per tax return, which is considerably less than the Canadian average of $19,386. There were only four individual sources of income for which Prince Edward Island was above the Canadian average, on a per capita basis: net fishing income, unemployment insurance benefits, net farming income, and family allowance.

In terms of occupation, doctors in Prince Edward Island clearly had the highest average incomes ($96,765) in 1985, followed by dentists ($70,920), accountants ($60,735) and lawyers ($59,429). An historical analysis of incomes since 1975 shows that doctors made considerable income gains between 1980 and 1985.

In terms of tax payable, provincial residents paid $90 million in net federal tax in 1985, as well as $52 million in net provincial tax. Converting these amounts into average tax rates, 8.65 per cent of total reported income for Prince Edward Island individuals ended up as federal tax payable, and 5.0 per cent as provincial tax payable. This combined rate for 1985 of 13.6 per cent compares to a combined rate of 12.2 per cent in 1975. Federal and provincial personal income taxes provide the largest source of government revenue in Canada.